ANNUAL REPORT for the year ended December 31st, 1965

THE ALGOMA STEEL CORPORATION, LIMITED

1965

Algoma's modern 80″ wide cold strip mill provides cold rolled sheet and strip up to 74″ wide

CHARTING ALGOMA'S PROGRESS 1956-1965

COMPOSITION OF CONSOLIDATED SALES

	1965 %	1964 %	1963 %	1962 %	1961 %	1960 %	1959 %	1958 %	1957 %	1956 %
Steel products	89	88	85	81	78	75	74	70	66	65
Pig iron	8	8	11	12	13	14	15	17	21	23
Sinter	1	1	1	3	4	5	6	8	7	6
Coke, coal chemicals, and sundry	2	3	3	4	5	6	5	5	6	6
	100	100	100	100	100	100	100	100	100	100

With further additions to rolling mills the trend of sales continued in 1965 and an increased proportion was in steel products.

GEOGRAPHICAL DISTRIBUTION OF CONSOLIDATED SALES

	1965 %	1964 %	1963 %	1962 %	1961 %	1960 %	1959 %	1958 %	1957 %	1956 %
Eastern Canada	14	13	12	13	10	10	6	6	8	10
Ontario	59	58	53	51	52	54	58	59	57	62
Western Canada	12	14	13	12	11	9	10	11	14	9
United States	15	15	22	23	21	20	26	19	18	18
Off-shore				1	6	7		5	3	1
	100	100	100	100	100	100	100	100	100	100

A further increase in activity in secondary industry and construction in Eastern Canada and Ontario is reflected in the distribution of sales.

STEEL SHIPMENTS BY PRODUCT CLASSIFICATION

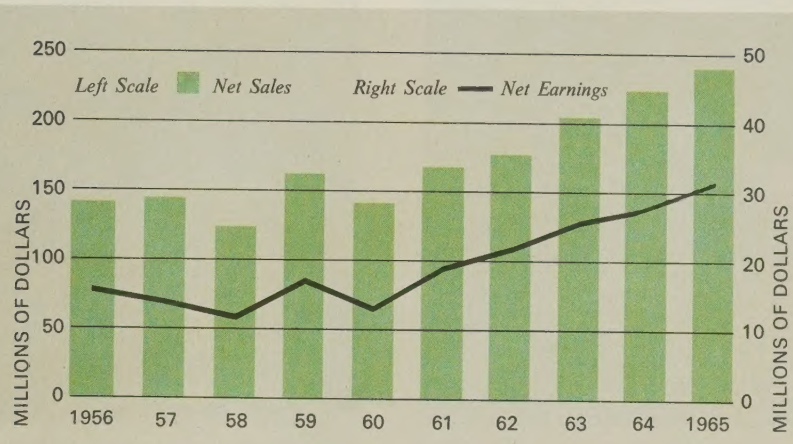
	1965 %	1964 %	1963 %	1962 %	1961 %	1960 %	1959 %	1958 %	1957 %	1956 %
Flat rolled	51	51	49	44	46	49	50	42	39	43
Heavy structurals including wide flange beams	19	21	20	21	13	10	10	12	19	16
Rails and fastenings	5	7	7	6	6	9	15	25	23	23
Bars and light structurals	5	5	5	6	6	7	6	9	8	9
Semi-finished including tube rounds	20	16	19	23	29	25	19	12	11	9
	100	100	100	100	100	100	100	100	100	100

In 1965 flat rolled products were again 51% of total steel shipments while the percentages represented by heavy structurals, rails and fastenings declined as a result of a 28 day shutdown of the rail and structural mills; shipment of an increased tonnage of tube rounds raised the percentage of semi-finished steel products.

ARY OF GROWTH

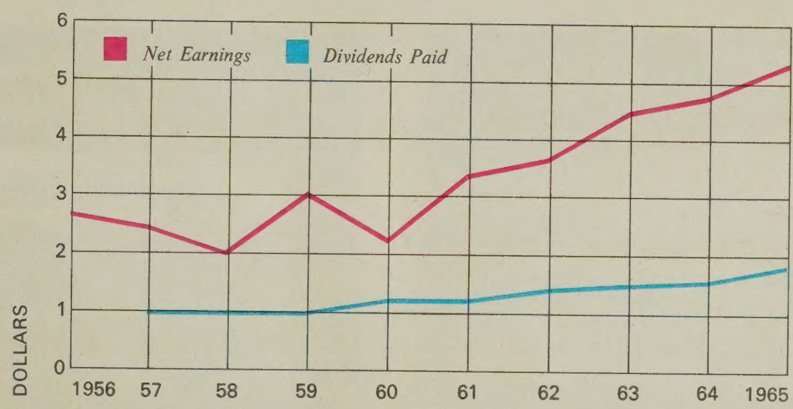
NET SALES AND NET EARNINGS

Record sales and earnings were established in 1965 for the fifth consecutive year.



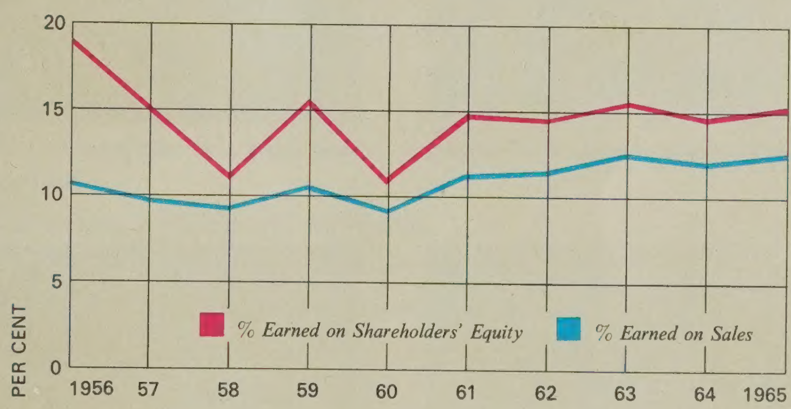
NET EARNINGS AND DIVIDENDS PER SHARE OF COMMON STOCK

Since 1957, when dividends were first paid, $67.5 million has been distributed to shareholders.



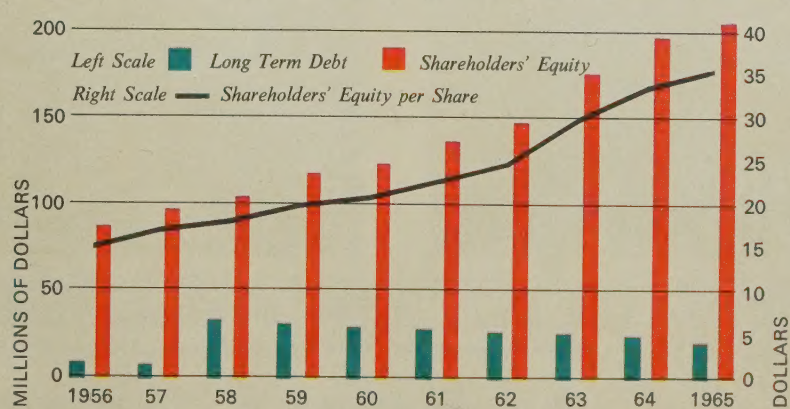
PER CENT EARNED ON AVERAGE SHAREHOLDERS' EQUITY AND ON SALES

From 1956 to 1964, earnings on shareholders' equity averaged 14.8% and on sales 11.0%; in 1965 they were 15.3% and 12.7% respectively.

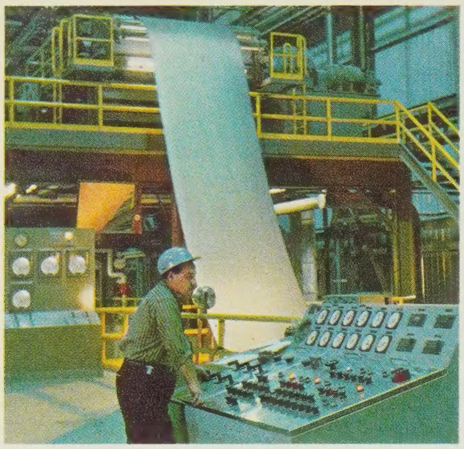


LONG TERM DEBT AND SHAREHOLDERS' EQUITY

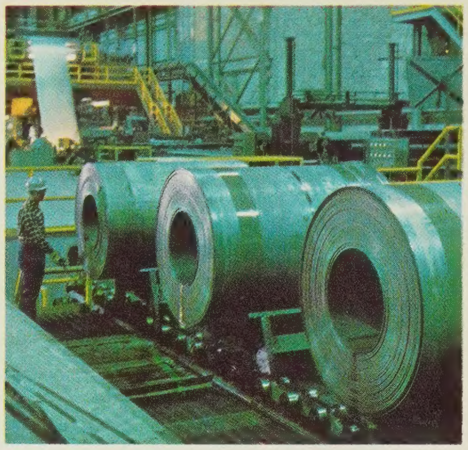
Long term debt had been reduced to 10.4% of invested capital at the end of 1965.



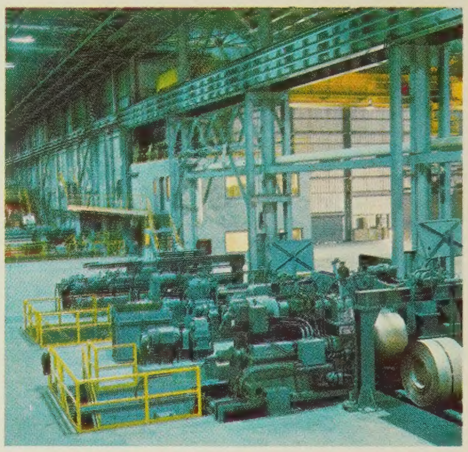
Canada's Newest Wide Cold Strip Mill



Steel leaving 100″ Pickling Line. Hot rolled steel is pickled to remove undesirable surface oxide prior to cold reducing.

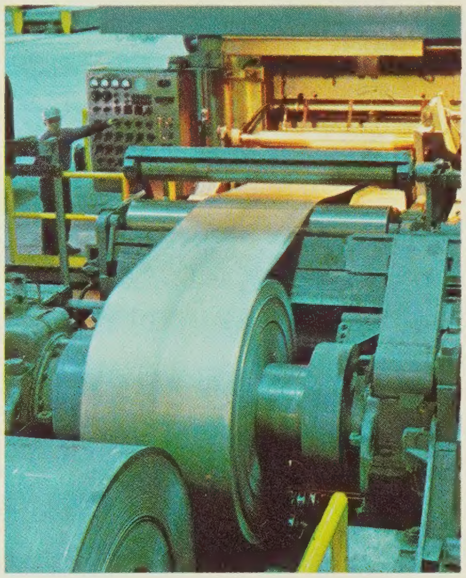


After Pickling, re-coiled steel is conveyed to other units for either cold reducing, slitting or cutting to length.



Slitting to suit customers' requirements.

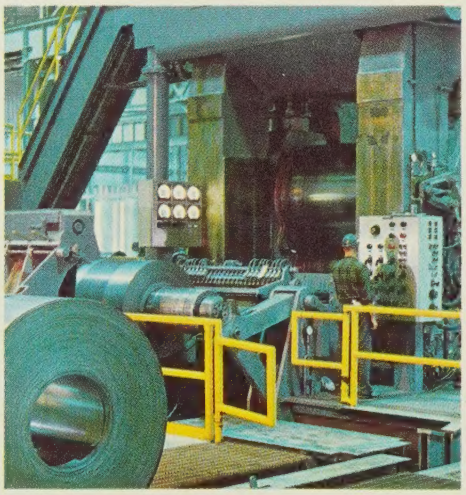
Coiled steel being conveyed to Cold Reduction Mill.



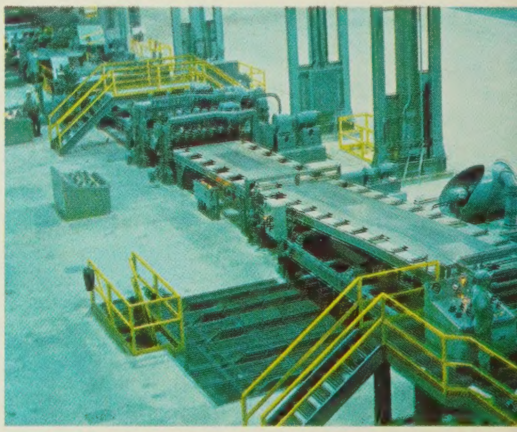
Steel being cold reduced.

After cold rolling, the steel is annealed in these furnaces to induce softening.

After annealing, the coils are conveyed to the Temper Mill.



Steel is tempered in this mill to produce proper physicals, surface and flatness.



Shearing Machine where steel is cut to specified lengths.

THE **ALGOMA STEEL** CORPORATION, LIMITED

SAULT STE. MARIE, ONTARIO • DISTRICT SALES OFFICES: SAINT JOHN, MONTREAL, TORONTO, HAMILTON, WINDSOR, WINNIPEG, VANCOUVER

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Les actionnaires qui désirent recevoir le Rapport des Administrateurs et les Etats financiers en français peuvent se les procurer en écrivant au Secrétaire de The Algoma Steel Corporation, Limited, Sault Ste-Marie, Ontario.

HIGHLIGHTS OF 1965

(*with comparative figures for 1964*)

	1965	1964	INCREASE OR (DECREASE)
	(dollars and tons in thousands)		
Net sales	$241,910	$225,049	$ 16,861
Net earnings — total	$ 30,804	$ 27,596	$ 3,208
— per share	$ 5.31	$ 4.76	$ .55
— per cent of income	12.6%	12.2%	.4%
— per cent of shareholders' equity	15.3%	14.7%	.6%
Cost of products sold as per cent of net sales	70.0%	70.0%	—
Dividends paid — total	$ 10,436	$ 9,267	$ 1,169
— per share	$ 1.80	$ 1.60	$ .20
Capital and mine development expenditures	$ 25,196	$ 37,504	$ (12,308)
Depreciation and amortization	$ 15,116	$ 14,554	$ 562
Long term debt at year end	$ 23,845	$ 26,921	$ (3,076)
Production — iron	N.T. 2,289	N.T. 2,261	N.T. 28
— steel ingots	N.T. 2,486	N.T. 2,301	N.T. 185
Shipments — steel products	N.T. 1,768	N.T. 1,670	N.T. 98
Approximate number of shareholders at year end	13,912	8,744	5,168

The Annual Meeting of Shareholders will be held at the Windsor Hotel, Sault Ste. Marie, Thursday, April 21st, 1966 at 3:40 p.m. Eastern Standard Time. A formal notice of the meeting and a proxy have been mailed separately.

IN BRIEF

1965 was an outstanding year with a sustained high level of business in the Canadian economy and new records were established by Algoma in production, shipments, sales and earnings.

Fortunately, higher volume, modest increases in prices of steel products, improved operating performance, lower expense of moving and rearranging plant and higher investment income more than offset further substantial increases in costs.

The 80" Wide Cold Strip Mill was brought into operation and the product, which is of excellent quality, was well received in the trade.

Confidence in the future of Canada and in Algoma's ability to maintain or improve its relative position in the Canadian primary steel industry was demonstrated by announcement of a major comprehensive expansion program.

Charts and tables of statistical data showing development and progress are contained in the supplement inserted in the Report.

DIRECTORS

John B. Barber	Sault Ste. Marie, Ontario
J. D. Barrington *elected October 7th, 1965*	Toronto, Ontario
*Wilfred R. Binch, Q.C.	Toronto, Ontario
*Sir Philip Dunn, Bart.	London, England
*David S. Holbrook	Sault Ste. Marie, Ontario
Gilbert W. Humphrey	Cleveland, Ohio, U.S.A.
Douglas Joyce	Sault Ste. Marie, Ontario
*T. R. McLagan, O.B.E.	Montreal, Quebec
W. Earle McLaughlin	Montreal, Quebec
*M. C. G. Meighen, O.B.E.	Toronto, Ontario
Dr. Egon Overbeck	Dusseldorf, West Germany
Ulrich Petersen	Dusseldorf, West Germany
J. S. D. Tory, O.B.E., Q.C., S.J.D.. *deceased August 27th, 1965*	Toronto, Ontario
*Dr. G. Wagner	New York, N.Y., U.S.A.
Hon. Robert H. Winters, P.C. *resigned December 23rd, 1965*	Toronto, Ontario

*Members of Executive Committee

HONORARY DIRECTORS

Hon. T. A. Crerar	Winnipeg, Manitoba
Henry S. Hamilton, Q.C.	Sault Ste. Marie, Ontario
Wilbert H. Howard, C.B.E., Q.C..	Montreal, Quebec
E. Gordon McMillan, Q.C.	Toronto, Ontario
Dr. Wilhelm Zangen	Dusseldorf, West Germany

OFFICERS

David S. Holbrook	Chairman and President
John B. Barber	Vice President - Finance
Douglas Joyce	Vice President - Operations
C. Carson Weeks	Vice President - Sales
Donald A. Machum	Secretary and Vice President - Personnel
C. E. McLurg	Treasurer

DIRECTORS' REPORT TO THE SHAREHOLDERS:

Financial

Net sales in 1965 were $241,910,126 and surpassed the previous record of $225,048,770 in 1964 by 7.5%. Investment income increased from $1,764,140 in 1964 to $2,522,217 reflecting higher dividend income on shares of Canada Steamship Lines, Limited and Dominion Bridge Company, Limited. Earnings of $30,804,400 after taxes reached a record high and exceeded earnings of $27,595,659 in 1964 by 11.6%. Earnings per share increased 55 cents from $4.76 in 1964 to $5.31 in 1965.

Higher volume, modest increases in the prices of steel products, improved operating performance, lower expense of moving and rearranging plant and higher investment income more than offset substantial increases in costs, principally in higher labour rates, pension funding and Federal sales tax.

Increases under labour agreements are described on page 11, and the increased cost of pensions resulting from mandatory funding under provisions of the Pension Benefits Act (Ontario) amounted to $1,620,000. Federal sales tax added approximately $1,600,000 to operating costs, an increase of $600,000 over 1964; the rate increased from 8% to 11% effective January 1st, 1965 on materials consumed in production and on building materials and production machinery and apparatus.

The liability for past service pensions, after applicable income tax reductions, amounted to $12,100,000 and was debited to Retained Earnings as it related to service in prior years. It is planned to fund this liability by equal annual payments over twenty-five years and the first payment was made in 1965.

Depreciation and amortization policy was unchanged and depreciation on plant and equipment, other than mining equipment, was accrued on a straight-line basis at rates which will write off the cost of the assets over their expected lives; the costs of mining equipment and mine development were amortized at rates per ton mined which will write them off over the estimated ore reserves in the mines. The total provision increased approximately $562,000, a relatively small amount compared to that in recent years. Although the effective income tax rate was about the same as in 1964, a lower proportion of taxes was deferred to future years. Cash flow from operations increased from $9.49 per share in 1964 to $9.60 per share.

Dividends paid at 45 cents quarterly totalled $1.80 per share and Canadian shareholders were advised that the dividends they received again qualify for deduction of 15% depletion allowance for income tax purposes. On February 2nd, 1966 the dividend for the first quarter of 1966 was increased to 50 cents per share and the Board of Directors authorized application for Supplementary Letters Patent subdividing the shares on a two for one basis, subject to confirmation by the shareholders at a Special General Meeting to be held preceding the Annual Meeting on April 21st. Combined cash and short term marketable investments increased to $19,568,232 at December 31st and $15,000,000 was reserved for construction and expansion in view of substantial expenditures expected in 1966. Working capital at the year-end was $56,701,966 and current assets were 2.7 times current liabilities. Accounts receivable and inventories were higher mainly as a result of the increased volume of sales.

The market value of long term investments increased $4,986,284 reflecting considerable improvement in the earnings of Canada Steamship Lines, Limited and Dominion Bridge Company, Limited.

Long term debt was reduced $3,075,587 and stood at $23,844,943 equal to 10.4% of invested capital at the end of the year. The $1,000,000 of cancelled series A debentures held at the end of 1964 were applied in satisfaction of the sinking fund payment due May 15th, 1965; a further $1,909,000 purchased at favourable prices and

cancelled may be applied in satisfaction of future sinking fund requirements. Repayments on the loan secured by series B debentures amounted to $1,166,587.

Options on 1,125 shares of treasury stock were exercised by key employees under the restricted stock option plan and there were 5,798,217 shares issued and outstanding at the end of the year. The number of shareholders increased from 8,744 to 13,912, largely as a result of liquidation in December of The M. A. Hanna Company, Cleveland, Ohio and distribution by that company of 278,000 Algoma shares on a pro-rata basis to its shareholders.

Details of the source and application of funds in 1965 and 1964 are shown below:

	1965	1964
	(millions of dollars)	
SOURCE		
Net earnings	$30.8	$27.6
Charges to earnings not requiring cash outlay:		
Depreciation and amortization	15.1	14.5
Income tax applicable to future years	9.1	11.6
Investments reserved for expansion at end of previous year	—	15.0
Other (net)	.6	1.3
Total	$55.6	$70.0
APPLICATION		
Plant and equipment	$23.7	$35.9
Mine development	1.5	1.6
	25.2	37.5
Purchase of series A debentures	1.9	.9
Repayment of long term loan	1.2	.8
Payment of dividends	10.4	9.3
Investments reserved for expansion	15.0	—
Purchase of investments	—	27.5
Total	$53.7	$76.0
WORKING CAPITAL		
At end of year	$56.7	$54.8

The report of the Carter Royal Commission on Taxation is expected early in 1966 and it is hoped that recommendations and resulting legislation will offer continuing encouragement to capital investment, modernization of facilities and development of natural resources by Canadian heavy industry. The importance to the Canadian economy of policy which recognizes the necessity of a reasonable income tax burden, the real value of development of Canadian raw material resources and the risks attendant thereto and provides stimulants for expanded business investment and development should not be underestimated as effective means of strengthening the whole economy, reducing imports and increasing employment.

Sales

Steel shipments reached an all-time record 1,768,000 tons and exceeded shipments in 1964 by almost 6%. The order backlog at the end of the year remained high and was about the same as at the end of 1964.

Exports of steel products, which were 11% of total steel shipments in 1964, increased to 14% in 1965. In the latter part of the year ingots were shipped to mills in the United States for conversion into hot rolled strip to be returned to the Steelworks for rolling into cold rolled strip and sheet on the Wide Cold Strip Mill.

Two new products introduced to the market — welded wide flange beams in sizes from 27″ to 48″ and wide cold rolled strip — were enthusiastically received and up to expected quality levels. Entry into the market for the latter appears to have relieved a chronic shortage in Canada.

The supplement to the Report shows ten year comparisons of the composition and geographical distribution of sales and the composition of steel product shipments. Hot and cold rolled strip, sheet and plate again represented 53% of total steel sales.

The average realization at Sault Ste. Marie on sales of steel products was $121.88 per ton compared to $118.66 in 1964. The higher return reflected the sale of an increased tonnage of more highly finished products and modest price increases.

Pig iron shipments, largely from the Canadian Furnace Division at Port Colborne, increased 16% from 292,000 tons in 1964 to 338,000 tons. As a result of the sustained high operating rate in the automotive industry, the tonnage exported to the United States increased.

There were no off-shore sales of steel products or pig iron.

It is not possible yet to predict the outcome of the GATT tariff negotiations which are moving slowly.

The sales organization was enlarged and strengthened and increased effort will be put forth in the future, both directly and through the Canadian Institute of Steel Construction, to promote the use of steel products rather than competitive materials.

Operations

For the fifth consecutive year, production of iron and steel products rose and new production records were attained. The tonnages shown below were produced at the Steelworks and Canadian Furnace Divisions:

	1965	1964
	(thousands of net tons)	
Coke	1,447	1,453
Iron	2,289	2,261
Steel ingots	2,486	2,301

Increased production of iron was achieved, although one of the large blast furnaces at the Steelworks was out of service for forty-five days early in the year for relining and enlargement. Production of iron for sale was concentrated on the blast furnace at Port Colborne to release as much iron as possible at the Steelworks for steel-making. Overall blast furnace performance was improved by increased injection of fuels in the form of tar and coke oven gas at the Steelworks and natural gas at Port Colborne and by use of a greater proportion of higher grade iron bearing materials; this resulted in further reductions in the quantity of coke required to produce a ton of iron, thus increasing the capacity of the blast furnaces.

The increase of about 8% in steel ingot production resulted from the first full year's operation of the three L-D Oxygen Steel furnaces and 60% of total steel was produced in these furnaces.

Use of new and improved techniques in the blooming and slabbing mills at the Steelworks increased the tonnage of ingots rolled above the level previously considered to be the maximum ingot rolling capacity of these mills.

The Rail and Structural and Wide Flange Beam Mills were out of production for twenty-eight days in September and October due to an illegal strike, which reduced the tonnage of structurals and wide flange beams that would otherwise have been produced.

In May, the new 80″ Wide Cold Strip Mill was brought into production and the quality of the product is excellent.

Performance of the new Welded Wide Flange Beam Plant is up to expectations.

Production at the Algoma Ore Properties Division and Cannelton Coal Company was as shown below:

		1965	1964
		(thousands of tons)	
Algoma Sinter	G.T.	1,822	1,781
Coal	N.T.	1,674	1,591

Improved methods which permitted faster sinter machine speeds, together with steadier operation of the screening plant, were responsible for the higher output of Algoma Sinter. Approximately 90% of the sinter produced was used in Algoma's blast furnaces. Of the raw ore sintered, 78% was mined from the George W. MacLeod underground mine and 22% from the Sir James open pit mine, compared to 73% and 27% in 1964, reflecting a gradual shift to dependence on the former as the latter mine nears exhaustion.

Increased production of coal was attributable to the use of higher capacity mining and haulage equipment, as mining conditions did not improve to the extent expected. The new longwall mining machine was installed and put into operation at the Kanawha Division of Cannelton Coal Company in August and there were further additions to and replacements of mining and haulage equipment which contributed to an increase in output per man.

Improvements, Additions and Alterations

Capital and mine development expenditures were $25,200,000. Delays were experienced in the design and engineering of the Continuous Casting Plant, No. 4 blast furnace did not require relining, several projects under consideration did not materialize and others were deferred until expansion plans had been finalized.

The expenditures completed at the Steelworks were:

The 80″ Wide Cold Strip Mill

Relining and enlargement of the second large (No. 5) blast furnace which increased the annual production capacity by 50,000 tons

Additions to steel and slag transportation equipment

Replacement of an oven for drying ingot moulds

The following were underway at the Steelworks at the year-end:

Installation of a plant for the continuous casting of blooms and beam blanks

Installation of a new battery of coke ovens

Installation of a fourth blast furnace turbo blower

Construction of a new boiler shop

The major expenditures at the Algoma Ore Properties Division were on mine development, installation of the new 12′ wide sintering machine to replace three small machines installed in 1939 and construction of a new building to centralize all maintenance crafts at one location. The new sintering machine was brought into production in February, 1966.

There were no major expenditures at the Canadian Furnace Division.

During the year the following agreements were entered into which supplement reserves of coal and iron ore to support expansion of the Steelworks:

Constantly increasing labour costs which could not be completely offset by further mechanization of coal mining operations have resulted in a gradual decrease in the thickness of coal seams which can be mined economically. An appraisal of reserves of low volatile metallurgical coal led to the conclusion that Algoma's economically mineable reserves had declined to the point where they would only last twenty-four years at present rates of extraction.

Promising low volatile metallurgical coal properties were investigated and the only large available reserve of this type of coal in West Virginia was purchased by Cannelton Coal Company. This 7,353 acre property was drilled and independently evaluated and the main Beckley seam was estimated to contain 42,000,000 tons of recoverable coal which could be mined at an operating cost considerably lower than the market price for equivalent quality coal.

A large proportion of this tonnage is in seams over 42″ thick, the coal is good coking grade, equal to and in some respects superior to Cannelton's low volatile coal reserves now being mined, and it blends well with the coal being mined from high volatile reserves. The cost of this property, which represented approximately eight and one-half cents per ton of recoverable coal, was reasonable and the freight rates on coal shipped from this property to the Steelworks are the same as on low volatile coal now being shipped.

This property will be held in reserve until required and increases the life of reserves of low volatile coal by approximately forty-two years at a mining rate of 1,000,000 tons annually. High volatile coal properties are also being investigated with a view to adding to reserves of this type of coal.

A lease for a minimum of twenty-two years and a joint venture agreement were entered into with Steep Rock Iron Mines Limited. Algoma acquired title to open pit hematite ore to a depth of 350′ above sea level in the Roberts and Hogarth Mines at Steep Rock Lake, Ontario and will take delivery of at least 22,000,000 gross tons of pellets at a minimum annual rate of 1,100,000 gross tons. Steep Rock Iron Mines Limited will install a pellet plant at Steep Rock Lake, mine the ore and produce pellets for Algoma averaging 64% iron content. Profits of the joint venture will be shared by Algoma and Steep Rock Iron Mines Limited on a formula basis. The pellet

plant is expected to be completed early in 1967, and red ore will be mined for Algoma from the leased property under a profit sharing arrangement, prior to production of pellets, at a rate of 600,000 gross tons per year. Under these agreements, Algoma also acquires an interest in substantial magnetite iron ore reserves at Lake St. Joseph, approximately 170 miles north of Steep Rock Lake.

Existing Federal legislation entitles Algoma to depletion allowance on profits arising from processing red ore and pellets received under the agreements with Steep Rock, and Algoma's share of profits from the processing of pellets will be exempt from income tax for three years from the date production of pellets commences in reasonable commercial quantities.

An option was exercised for $1,300,000 and a ninety-nine year lease entered into with Can-Fer Mines Limited covering a magnetite iron ore property. This property is in the Onaman Iron Range, approximately 100 miles north of Nipigon, on the north shore of Lake Superior. The property was closely drilled and explored and independently estimated to contain a minimum of sufficient open pit ore to produce annually over 1,000,000 gross tons of pellets of slightly over 64% iron content for more than twenty years. The royalties per ton of pellets produced are reasonable.

An option has been exercised for $40,000 and a thirty-three year renewable lease entered into with the trustees for the owners of claims adjoining magnetite iron ore properties already owned and leased by Algoma in the South Goulais Iron Range about sixty miles north of Sault Ste. Marie. These claims round out this property which is estimated to contain a minimum of sufficient ore to produce annually 1,000,000 gross tons of pellets of slightly over 64% iron content for about thirty years. Royalties per ton of pellets produced are also reasonable under this lease.

It is the intention to hold the Can-Fer and Goulais iron ore properties in reserve and the expense of doing so will not be large, as minimum annual royalties prior to production are not high and are deductible from royalties based on production.

Outlook and Major Expansion Program

In March, 1965 the Board of Directors authorized installation of a Continuous Casting Plant including a four strand machine to cast blooms from 10″ x 10″ to 12″ x 12″ and a two strand machine to cast beam blanks and slabs up to 30″ wide. After start-up problems normally experienced have been overcome, this plant is expected to produce 600,000 tons annually. The plant is estimated to cost $9,000,000 and the expenditure is fully justified by expected savings in operating costs and by increasing capacity to produce finished steel products initially by approximately 350,000 tons annually.

With the addition of the Continuous Casting Plant, which is expected to be in production late in 1966 or early the following year, the Steelworks will be capable of producing 2,750,000 tons of raw steel annually and will have reached the ultimate capacity of its coke ovens, blast furnaces, steelmaking plants, blooming mills and plate and wide strip and sheet mills.

In September, the Board of Directors authorized a major expansion program, deeply integrated to include coal, ore, iron, raw steel and finished steel products, which would increase annual raw steel capacity about 40%. The program is estimated to cost about $175,000,000 and is planned to be completed by mid-1970. The objectives are to increase annual production capacity for raw steel by 1,000,000 tons to 3,750,000 tons and for finished steel products by 1,150,000 tons to approximately 2,800,000 tons.

The following factors were largely responsible for this decision:

Firm belief in the continued growth of Canada, increased consumption of steel, and confidence in Algoma's ability to obtain at least its share of the steel market resulting from this increase;

Analysis of growth trends in steel products indicates that the strongest upward trends in demand will be for plate and hot and cold rolled strip and sheet. Development and expansion of the Steelworks has been directed for years toward strong participation in the flat rolled market and Algoma is in a favourable position to take advantage of growth in this market;

Algoma's export experience in flat rolled products has been good and its participation in this market should continue;

On completion of the expansion program, the capacity of the Steelworks should be well balanced and diversified with respect to prospective steel demand;

The estimated return on investment is attractive and indications are that the program can be financed with internally generated funds.

The major additions required to complete the program are:

A battery of sixty large coke ovens designed for the possible future use of preheated coal, equipped for automatic door clearing and smokeless charging and with an automated coke wharf. This is a new type of battery in which the ovens will be individually 60% greater in capacity than the previous standard ovens. It will be the first of its kind in a North American steelworks and will have an annual coke capacity of 615,000 tons, replacing a fifty-five year old battery. The battery is under construction and is expected to be in production early in 1967

A 32′ diameter hearth blast furnace with an annual capacity of 1,050,000 tons of iron which could be raised to 1,400,000 tons with a pellet burden

A new large turbo blower and a boiler

A second L-D Oxygen Steel Plant with two 200 ton furnaces having an annual rated capacity of 2,000,000 tons, additional soaking pits with an annual capacity of 1,000,000 tons and a second calcining plant for the production of burned lime

A 160″ Plate Mill with two reheating furnaces and relocation of the 106″ Wide Hot Strip Mill stands to separate this mill entirely from the combination 46″ - 122″ Bloom and Plate Mill. This will increase annual plate and wide hot rolled strip capacity substantially

A new reheating furnace and storage bay for the Rail and Structural and Wide Flange Beam Mills to increase annual capacity for structural sections

Additional and expanded auxiliary and service facilities including shops, sewers, electrical distribution system, steam generation, rolling stock and pumps

Acquisition or lease of additional reserves of coal and ore

In 1966, capital expenditures are expected to be $50,000,000. Major projects will include:

The new coke oven battery and auxiliary facilities

The new Continuous Casting Plant

Relining and enlargement of another small (No. 4) blast furnace, equipment of this furnace for tar injection and higher top gas pressure operation and increasing the capacity of the stoves and hot blast facilities

Installation of the blast furnace turbo blower and boiler

Relocation of maintenance shops

Installation of the second reheating furnace for the Rail and Structural and Wide Flange Beam Mills

Construction of a new metallurgical and research building

Relocation of a plant entrance and railway tracks to clear the site for the new L-D Oxygen Steel Plant and site clearance for the new blast furnace

Conversion of benzol scrubbers to spray type and the installation of light oil recovery equipment

Engineering and castings for the new plate and hot strip mills and engineering for the new L-D Oxygen Steel Plant

Additions to steel transportation equipment

Relocation of the 30″ Cold Strip Mill to the wide cold strip mill building

Looking at the immediate future, the continuing high level of activity in nearly all segments of Canadian industry and the gradually increasing level of business in the United States indicate that steel production should remain near capacity through at least the first half of 1966.

Employee, Community and Public Relations

Following settlement early in the year of new labour and welfare agreements covering hourly rated employees in the major bargaining unit at the Steelworks, similar agreements were reached with union locals representing employees in other bargaining units at the Steelworks, Algoma Ore Properties and Canadian Furnace Divisions.

Under these agreements, employment costs rose appreciably. Wage increases averaging approximately seven cents per hour and higher shift and Sunday premium pay became effective August 1st. In addition, at the year-end employees became entitled to substantial improvements in vacations which may cause some scheduling problems.

These agreements and the five year pension agreements with these bargaining units expire July 31st, 1966.

Unrest which accompanied protracted negotiations with the major bargaining unit had some adverse effect on operational efficiency, as did a twenty-eight day unauthorized and illegal strike of some employees in the Rail and Structural Mill Department. The main issue in this strike was the assignment of job duties and it was settled satisfactorily.

Wage agreements effective April 2nd, 1964 covering employees of Cannelton Coal Company remain in effect until terminated by either party.

Adjustments were made in salary scales and benefits for supervisory and staff employees to maintain levels comparable to those prevailing in industry and to recognize the contribution of these employees to Algoma's welfare. In addition, special efforts were made to improve the flow of information to management personnel.

With the advent of the Canada Pension Plan in January, 1966, contributions of 1.8% of annual earnings between $600 and $5,000 must be made by all employees, with matching contributions by the Corporation. This plan will supplement pension plans adopted in 1964 for supervisory and staff employees; its relationship to pension plans for employees represented by bargaining units will be determined in negotiations this year.

On the principle that Algoma's most important asset is the people who work for it, increased emphasis was placed on providing employees with opportunities to develop and utilize their full capabilities and better understand corporate objectives. The importance of the individual employee and his contribution to the Corporation's well-being has been and will continue to be stressed in employee relations programs.

One aspect of this has been continued expansion of extensive educational and training plans at basic, advanced and university levels. These provide for general educational development with special supervisory training to increase managerial skills, as well as technical training in specialized occupations. Their content was improved, several having been adopted as models elsewhere in Ontario, and employee participation at the Steelworks increased 25% to one employee out of every four. Apprenticeship and summer student employment programs were enlarged, new training facilities provided, and closer co-operation achieved with government educational agencies at federal, provincial and municipal levels. Ties with university engineering departments and technical institutes were strengthened through development of co-operative projects and the appointment of employees to advisory boards. These plans and programs are designed to help the individual employee and the Corporation to better meet the challenge resulting from rapid advances in technology, continued growth and the shortage of qualified people at all levels.

Safety programs were carried on continuously in an unending effort to prevent and reduce accidents. Although much can be done through provision of proper equipment and safe working conditions, safety is primarily a matter of employee education and co-operation. Most accidents are caused by poor working habits or a moment of carelessness or inattention, and this is impressed on all employees on every possible occasion.

The Corporation continued its support of Canadian educational, cultural and charitable institutions and is participating with the three other Canadian primary steel producers in an exhibit

at the 1967 World's Fair in Montreal. An impressive Steel Pavilion will be built and there will be trained guides to conduct visitors through an exhibit consisting of simulated blast furnaces, oxygen steel units, soaking pits, rolling mills and a display of finished steel products. Algoma's structural products, including welded wide flange beams, are being used extensively in the Steel Pavilion and in other structures at Expo '67.

The Steelworks Division which employs over 40% of the working population of Sault Ste. Marie contributed in many ways to the well-being of the community. Strong support was continued to the United Appeal Fund and to planning for a junior college to be located in the Sault. The Sir James Dunn Scholarship Program was broadened and expanded, and summer jobs at the Steelworks and Algoma Ore Properties Divisions assisted more than 500 students to continue their education. Over $70,000,000 was spent by Algoma in the Sault in 1965 on salaries, wages, taxes, goods and services.

Personnel

At the Annual Meeting of Shareholders on April 22nd, Ulrich Petersen was elected to the Board of Directors. Mr. Petersen is a member of the Board of Management of Mannesmann AG, Dusseldorf, West Germany and has had wide experience in the steel industry. Dr. Wilhelm Zangen, a director since June 5th, 1957, had become ineligible for re-election and was elected an honorary director.

It is with regret that the death on August 27th of J. S. D. Tory, O.B.E., Q.C., S.J.D., is recorded. Mr. Tory had been a valued director since June 5th, 1957 and a member of the Executive Committee since April 18th, 1963.

On October 7th, John D. Barrington was elected to the Board of Directors. Mr. Barrington is President and Managing Director of McIntyre Porcupine Mines Limited and is a director of a number of other Canadian companies.

M. C. G. Meighen, O.B.E., was elected to the Executive Committee on November 2nd.

The resignation of the Hon. Robert H. Winters, P.C., from the Board of Directors was accepted effective December 23rd, following his appointment to the Federal Cabinet and his advice and judgement as a director will be missed.

MacKenzie McMurray, President, Dominion Bridge Company, Limited was elected to the Board of Directors on February 2nd, 1966.

Donald A. Machum was appointed Vice President -Personnel on April 22nd. Mr. Machum is Secretary and had been Assistant Vice President -Industrial Relations since February 1st, 1962.

It is again a pleasure to express grateful appreciation to all executives, managers and employees for their fine efforts and contributions to the progress of Algoma.

Submitted on behalf of the Board of Directors

D. S. HOLBROOK
CHAIRMAN and PRESIDENT

Sault Ste. Marie, Ontario
February 2nd, 1966.

COMPARATIVE CONSOLIDATED EARNINGS

FOR THE YEARS ENDED DECEMBER 31, 1965 AND 1964

		1965	1964
INCOME	Net sales	$241,910,126	$225,048,770
	Investments	2,522,217	1,764,140
		244,432,343	226,812,910
EXPENSES	Cost of products sold	169,372,015	157,509,179
	Moving and rearranging plant	154,037	697,024
	Administrative, selling and general	4,790,139	4,624,820
	Interest on long term debt	1,285,208	1,369,486
	Depreciation and amortization	15,115,544	14,553,742
		190,716,943	178,754,251
EARNINGS BEFORE INCOME TAXES		53,715,400	48,058,659
INCOME TAXES	Current	13,777,000	8,924,000
	Deferred (Note 1)	9,134,000	11,539,000
		22,911,000	20,463,000
NET EARNINGS		$ 30,804,400	$ 27,595,659

COMPARATIVE CONSOLIDATED RETAINED EARNINGS

FOR THE YEARS ENDED DECEMBER 31, 1965 AND 1964

	1965	1964
Balance at beginning of year	$186,734,752	$168,406,480
Net earnings	30,804,400	27,595,659
	217,539,152	196,002,139
Dividends paid	10,435,747	9,267,387
Past service pension cost (Note 2)	12,100,000	—
Balance at end of year	$195,003,405	$186,734,752

See Notes to Consolidated Financial Statements on page 16

CONSOLIDATED

AS AT DECEMBE

ASSETS	1965	1964
CURRENT		
Cash	$ 1,091,592	$ 925,965
Marketable investments at cost (approximates market)	18,476,640	3,214,036
Less – reserved (see below)	15,000,000	—
	3,476,640	3,214,036
Accounts receivable	38,001,053	32,397,312
Inventories at lower of cost or market (Note 3)	46,420,213	43,831,820
Prepaid expenses	1,075,972	1,031,394
Total current assets	90,065,470	81,400,527
INVESTMENTS AT COST		
Marketable	30,082,605	30,153,920
(market value 1965 $53,563,546 – 1964 $48,577,262)		
Other	192,797	181,939
	30,275,402	30,335,859
MARKETABLE INVESTMENTS RESERVED FOR CONSTRUCTION AND EXPANSION	15,000,000	—
FIXED ASSETS		
Property, plant and equipment at cost (Note 4)	342,726,042	320,191,918
Mine development at cost	16,603,220	15,732,422
	359,329,262	335,924,340
Accumulated depreciation, depletion and amortization	163,317,435	149,221,985
	196,011,827	186,702,355
	$331,352,699	$298,438,741

Approved on behalf of the Board

D. S. HOLBROOK Director

T. R. McLAGAN Director

IMITED AND SUBSIDIARIES

ALANCE SHEET

1965 AND 1964

LIABILITIES	1965	1964
CURRENT		
Accounts payable and accrued liabilities	$ 24,660,151	$ 22,088,258
Income and other taxes payable	8,703,353	4,553,256
Total current liabilities	33,363,504	26,641,514
LONG TERM DEBT – SECURED (Note 5)		
5¼% series A sinking fund debentures	20,091,000	22,000,000
Loan	3,753,943	4,920,530
	23,844,943	26,920,530
PAST SERVICE PENSION LIABILITY (Note 2)	11,827,302	—
DEFERRED INCOME TAXES (Note 1)	56,704,000	47,570,000
SHAREHOLDERS' EQUITY (Note 6)		
Capital stock		
Authorized – 15,099,880 shares of no par value		
Issued – 5,798,217 shares (1964 – 5,797,092 shares)	10,609,545	10,571,945
Retained earnings	195,003,405	186,734,752
	205,612,950	197,306,697
	$331,352,699	$298,438,741

See Notes to Consolidated Financial Statements on page 16

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 1965

(1) INCOME TAXES — Deferred income taxes $9,134,000 in the Comparative Consolidated Earnings Statement resulted from claiming for tax purposes an amount greater than the depreciation recorded in the accounts. This amount is included in "Deferred Income Taxes" in the Balance Sheet and is applicable to future periods in which amounts claimed for depreciation for tax purposes may be less than amounts recorded in the accounts.

(2) PENSIONS — Funding of pensions for past service in respect of the Corporation's existing plans was commenced under the provisions of the Pensions Benefits Act (Ontario) in 1965 and this change was mainly responsible for an increase of $1,620,000 in the amount charged to earnings as compared to 1964. Past service pension liability was estimated to be $24,000,000 at January 1, 1965. This amount is being funded by annual payments over 25 years and has been provided for in the accounts by a charge to retained earnings of $12,100,000 which is the liability after income tax reductions applicable to the annual payments. Current service pension cost and interest on the past service liability were charged to earnings in 1965.

(3) INVENTORIES — Inventories at December 31, 1965 and 1964 are:

	1965	1964
Finished products	$ 7,249,565	$ 8,755,220
Work in process	9,506,214	5,744,952
Raw materials and supplies	29,664,434	29,331,648
	$46,420,213	$43,831,820

(4) PROPERTY, PLANT AND EQUIPMENT — A major expansion program has been authorized under which commitments of approximately $30,000,000 are outstanding at December 31, 1965. Total expenditures on this program expected to be completed by mid-1969 or 1970 amount to approximately $175,000,000.

(5) LONG TERM DEBT — The series A debentures are secured by a Trust Deed under which a sinking fund must be provided to redeem $1,000,000 principal amount in each of the years 1966 to 1977 inclusive. Debentures become due May 15, 1978 and all or any part may be redeemed at any time. At December 31, 1965, series A debentures redeemed and available to satisfy future sinking fund requirements amount to $1,909,000.

The Loan is secured by series B debentures, is repayable in monthly instalments contingent on sales to the lender and is to be completely repaid by December 31, 1967. Repayments discharge equal amounts of series B debentures.

(6) SHAREHOLDERS' EQUITY — As long as series A debentures are outstanding the Corporation must meet certain financial requirements before paying dividends or reducing share capital. These financial requirements are exceeded by a substantial amount.

During 1965 options were exercised on 1,125 shares for $37,600 under the stock option plan for certain employees. At December 31, 1965 there are unexercised options on 2,000 shares at $30.20 per share terminating in 1971 and on 39,875 shares at prices from $59.20 to $59.40 per share terminating in 1974.

(7) REMUNERATION OF DIRECTORS — Total remuneration of directors including those who are executive officers amounted to $339,682 in 1965.

(8) UNITED STATES SUBSIDIARY — The assets and liabilities of the United States subsidiary are included in the financial statements at par of exchange. If these assets and liabilities had been converted to Canadian dollar equivalent, there would not have been any substantial effect on the financial position.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of The Algoma Steel Corporation, Limited and subsidiaries as at December 31, 1965 and the statements of consolidated earnings and retained earnings for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and statements of consolidated earnings and retained earnings present fairly the financial position of the companies at December 31, 1965 and the results of their operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, except for the change, of which we approve, in the basis of providing for pension benefits as set out in Note 2 to the consolidated financial statements.

Sault Ste. Marie, Ontario
January 14, 1966.

"PEAT, MARWICK, MITCHELL & CO."
Chartered Accountants

EXECUTIVE OFFICES	Sault Ste. Marie, Ontario
SALES OFFICES	Sault Ste. Marie, Ontario Saint John, New Brunswick Montreal, Quebec Toronto, Ontario Hamilton, Ontario Windsor, Ontario Winnipeg, Manitoba Vancouver, British Columbia

THE ALGOMA STEEL CORPORATION, LIMITED

INCORPORATION	Under the laws of the Province of Ontario
WORKS AND OPERATIONS	The Algoma Steel Corporation, Limited Steelworks Division, Sault Ste. Marie, Ontario Canadian Furnace Division, Port Colborne, Ontario Algoma Ore Properties Division, Michipicoten District, Ontario Cannelton Coal Company Kanawha Division, Cannelton, West Virginia Pocahontas Division, Superior, West Virginia
SHARE TRANSFER AGENTS AND REGISTRARS	Montreal Trust Company, Saint John, Montreal, Toronto, Winnipeg and Vancouver The Royal Bank of Canada Trust Company, New York
TRUSTEE FOR DEBENTURES	Montreal Trust Company, Toronto, Ontario
REGISTRAR FOR DEBENTURES	Montreal Trust Company, Montreal, Toronto, Winnipeg and Vancouver

TWELVE YEAR COMPARISON OF FINANCIAL

SUMMARY OF OPERATIONS AND NET EARNINGS (thousands of tons and millions of dollars)

Year	Production: Coal net tons	Production: Algoma Sinter gross tons	Production: Iron net tons	Production: Steel ingots net tons	Shipments of steel products net tons	Income $	Cost of products sold $	Moving and rearranging plant $	Administrative, selling & general $	Interest & expense on long term debt $	Depreciation and amortization $	Income taxes $	Net earnings $
1965	1674	1822	2289	2486	1768	244.4	169.4	.1	4.8	1.3	15.1	22.9	30.8
1964	1591	1781	2261	2301	1670	226.8	157.5	.7	4.6	1.4	14.5	20.5	27.6
1963	1672	1618	2077	2092	1520	205.8	141.7	.5	4.3	1.5	13.1	18.8	25.9
1962	1443	1460	1772	1759	1297	180.2	127.4	.7	3.7	1.5	11.6	14.2	21.1
1961	1443	1631	1732	1650	1228	169.7	123.4	.8	3.4	1.6	10.5	10.5	19.5
1960	1443	1707	1427	1278	949	143.3	105.5	.9	3.2	1.6	10.0	8.8	13.3
1959	1457	1838	1552	1372	1045	164.5	116.5	.5	3.2	1.7	10.8	14.2	17.6
1958	1275	1632	1110	962	727	124.2	89.6	1.0	2.9	1.2	9.3	8.4	11.8
1957	1249	1582	1434	1066	823	144.0	105.7	1.7	3.0	.5	7.6	11.3	14.2
1956	1191	1411	1490	1105	871	144.0	107.4		2.8	.4	6.3	11.4	15.7
1955	896	1262	1294	990	764	114.7	88.0		2.2	.6	5.8	7.7	10.4
1954	626	1107	736	566	423	71.0	56.3	.1	1.7	1.0	5.6	1.9	4.4

SOURCE AND APPLICATION OF FUNDS (millions of dollars)

Year	Source: Net earnings $	Source: Depreciation and amortization $	Source: Deferred taxes on income $	Source: Sale of investments $	Source: Long term debt $	Source: Other —net (1) $	Application: Fixed assets $	Application: Investments reserved for expansion $	Application: Reduction of debt $	Application: Dividends $	Application: Investments $	Increase in working capital $
1965	30.8	15.1	9.1			.6	25.2	15.0	3.1	10.4		1.9
1964	27.6	14.5	11.6			16.3	37.5		1.7	9.3	27.5	(6.0)
1963	25.9	13.1	5.7	16.1		9.4	31.5	15.0	1.8	8.7		13.2
1962	21.1	11.6	4.6			11.3	33.2	9.0	1.3	8.1		(3.0)
1961	19.5	10.5	3.4			2.0	18.0	10.0	.7	7.0		(.3)
1960	13.3	10.0	3.1			14.8	26.4		1.4	7.0		6.4
1959	17.6	10.8	1.7			.9	13.8	14.0	2.1	5.8		(4.7)
1958	11.8	9.3	4.9		25.0	(4.3)	35.9		.5	5.7		4.6
1957	14.2	7.6	1.9			.2	25.8		.6	5.7		(8.2)
1956	15.7	6.3	2.9	.7		.7	9.2		.6			16.5
1955	10.4	5.8	5.5			1.0	5.8		.7			16.2
1954	4.4	5.6	1.8				7.2		.4		2.1	2.1

(1) Includes investments reserved for expansion at end of previous year.

MITED AND SUBSIDIARIES

ND OPERATING RESULTS 1965 - 1954

STATISTICS RELATING TO EARNINGS (millions of dollars excepting per share data)

Year	Cash dividends $	Net earnings retained in business $	Cash flow from operations $	Per share: Net earnings $	Per share: Cash dividends $	Per share: Cash flow $	Cost of products sold as % of net sales %	Income taxes as % of income %	Net earnings as % of: Income %	Net earnings as % of: Average shareholders' equity %	Net earnings as % of: Average invested capital %
1965	10.4	20.4	55.6	5.31	1.80	9.60	70.0	9.4	12.6	15.3	13.9
1964	9.3	18.3	55.0	4.76	1.60	9.49	70.0	9.0	12.2	14.7	13.1
1963	8.7	17.2	45.1	4.47	1.50	7.79	69.5	9.1	12.6	15.8	13.8
1962	8.1	13.0	38.6	3.64	1.40	6.67	71.5	7.9	11.7	14.7	12.6
1961	7.0	12.5	35.3	3.36	1.20	6.10	73.6	6.2	11.5	14.9	12.5
1960	7.0	6.3	27.1	2.30	1.20	4.70	74.9	6.1	9.3	11.0	9.2
1959	5.8	11.8	31.0	3.05	1.00	5.37	71.6	8.6	10.7	15.8	12.7
1958	5.7	6.1	26.3	2.05	1.00	4.57	72.9	6.8	9.5	11.6	9.9
1957	5.7	8.5	23.9	2.49	1.00	4.20	74.2	7.8	9.9	15.1	13.6
1956		15.7	26.3	2.76		4.61	75.4	7.9	10.9	19.2	16.9
1955		10.4	22.7	1.83		3.98	77.2	6.7	9.1	15.2	13.0
1954		4.4	9.7	.78		1.70	79.5	2.7	6.2	7.3	6.3

BALANCE SHEET SUMMARY (millions of dollars excepting per share data)

Dec. 31	Working capital $	Investments $	Investments reserved for expansion $	Net fixed assets $	Unamortized debenture expense $	Long term debt $	Past service pension liability $	Deferred income taxes $	Deferred earnings on advance sales $	Share-holders' equity $	Share-holders' equity per share $	Shares issued (000) No.	Share-holders No.
1965	56.7	30.3	15.0	196.0		23.9	11.8	56.7		205.6	35.46	5798	13912
1964	54.8	30.3		186.7		26.9		47.6		197.3	34.04	5797	8744
1963	60.8	2.9	15.0	164.0		28.6		34.9	.4	178.8	30.89	5787	7863
1962	47.6	6.5	9.0	146.2	.5	30.4		29.4	.5	149.5	25.83	5786	7815
1961	50.6	6.5	10.0	125.8	.5	31.7		24.7	.3	136.7	23.63	5786	7537
1960	50.9	6.4		120.0	.6	32.4		21.3	.3	123.9	21.47	5771	7176
1959	44.5	6.5	14.0	104.3	.6	33.8		18.3	.3	117.5	20.38	5766	6394
1958	49.2	6.6		101.5	.7	35.9		17.0	.2	104.9	18.25	5745	4678
1957	44.6	6.6		70.7		11.4		12.1	.4	98.0	17.19	5703	3396
1956	52.8	6.7		52.8		12.0		10.2	.4	89.7	15.72	5703	2642
1955	36.3	7.4		50.6		12.6		7.3	.5	73.9	12.96	5703	2308
1954	20.1	7.4		51.1		13.3		1.8		63.5	11.13	5703	2152

Statistics on shares exclude shares owned by subsidiaries in 1956 and prior years, and are adjusted for the four for one share subdivision in June 1957.

Average invested capital is the average of shareholders' equity plus long term debt less unamortized debenture expense at the beginning and end of the year.

PRODUCTS

ALGOMA SINTER

COKE

COAL CHEMICALS

PIG IRON

BLOOMS, BILLETS AND SLABS

HEAVY AND LIGHT RAILS

RAIL FASTENINGS

HEAVY STRUCTURALS

PARALLEL FLANGE BEAMS

LIGHT STRUCTURALS

CARBON MERCHANT BARS

REINFORCING BARS

TUBE ROUNDS

GRINDING BALLS AND RODS

SHEARED PLATE

UNIVERSAL PLATE

HOT ROLLED SHEET AND STRIP

COLD ROLLED SHEET AND STRIP

ELECTRICAL SHEET AND STRIP

SKELP